STATE BOARD OF LAND COMMISSIONERS
August 8, 2005
Regular Agenda

SUBJECT
The allocation of investment gains were inappropriately allocated to permanent fund balances in FY 2004. The EFIB must restate FY 2004 permanent fund and earnings reserve balances.

OVERVIEW
In FY 2004, Idaho Code §57-720 may have been misinterpreted, as the investment gains were allocated 100% to the permanent fund balances. The EFIB asked the Attorney General's office to review the statute and came to the determination that the FY 2004 investment gains were inappropriately posted. The investment gain should not have been allocated 100% to the permanent fund balances; rather, the investment gains should have been allocated proportionately to the permanent fund and earnings reserve funds.

A restatement of FY 2004 permanent fund and earnings reserve balances will result in a slight decrease in the permanent fund values and a slight increase in the earnings reserve accounts. The net effect of all accounts results in approximately $4.9 million in gains which should have been posted to earnings reserve funds and therefore, should be subtracted from the permanent funds. As such, the earnings reserve balances for all accounts, with the exception of the Agricultural College and Charitable Institutions accounts, will increase by amounts stated in the attached spreadsheet.

The Attorney General's office also noted that under Idaho Code §57-723A(2), the Land Board has the option to transfer earnings reserve funds back to the respective permanent funds.

The EFIB must restate FY 2004 permanent fund and earnings reserve balances. Although the Land Board could keep the situation as it is by authorizing a transfer of earnings reserve balances to permanent funds for each of the funds, such an action would reduce the cushion of the earnings reserve accounts and would only have an immaterial effect on the permanent fund balances.

INFORMATION ITEM
The EFIB must restate the FY 2004 permanent fund and earnings reserve balances. The Land Board does not need to take any action on this item.